

News and Information

from the Tennessee Division of Consumer Affairs

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FTC, ATTORNEYS GENERAL WARN OF CREDIT REPAIR SCAMS WITH NATIONWIDE CRACKDOWN

If you are trying to clean up your credit record, you could be the target of a new scam to part you from your hard-earned money that could land you in jail.

Tennessee Attorney General Paul G. Summers and Tennessee Division of Consumer Affairs Director Mark Williams today joined attorneys general from all over the country and the Federal Trade Commission warning consumers of "file segregation," a method being recommended by some "credit repair" companies to hide unfavorable credit information by establishing a new identity. Today's announcement coincides with National Consumer Protection Week, which will highlight states' efforts throughout the country to educate consumers to a number of problems they may face.

Although it might sound tempting to establish a new credit identity through file segregation, it is against federal and state laws to deliberately change your identity to ignore debts.

"It is truly unfortunate that some individuals would prey on people who have already had misfortune with their credit," Summers said. "What compounds the problem is that once someone has paid for this illegal service, they are generally afraid to come forward and report it for fear not only of possible prosecution, but also of embarrassment for having been taken in by a scam artist."

"There is nothing that a credit repair company can do for a consumer that a consumer can't do for themselves for free," said Williams. "Only inaccurate information can be removed from a credit report."

A file segregation service is generally pitched through a variety of advertisements, usually warning those who have filed for bankruptcy that there is no other way to get credit for at least 10 years. For a fee, the credit repair company will usually direct the consumer to apply for an Employer Identification Number (EIN) for the Internal Revenue Service. Such numbers resemble a Social Security number and are used by businesses to report financial information to the IRS and the Social Security Administration.

Once a consumer gets an EIN, the company will usually tell the consumer to use it in place of a Social Security number when applying for credit. This is usually coupled with directions to give a new mailing address and credit references. It is, however, a federal crime to make false statements on a loan or credit application or to obtain an EIN from the IRS under false pretenses. It is also a federal crime to misrepresent a Social Security number. Those who apply for credit with false information by telephone or mail can also be charged with mail or wire fraud. Further, such deceptions violate Tennessee consumer protection laws.

If you have a problem with a credit repair company, contact the Tennessee Division of Consumer

Affairs at 500 James Robertson Parkway, Fifth Floor, 37243-0600. You can also contact the FTC with complaints by writing to: Consumer Response Center, Federal Trade Commission, Washington, D.C. 20580.

To help consumers avoid becoming victims, the Tennessee Attorney General's Office, Tennessee Division of Consumer Affairs and FTC offer the following tips:

- Avoid companies that require you to pay in advance. It is against the law. Credit repair businesses are required to perform all services before accepting any payment from consumers. Furthermore, if you pay in advance, you chance never getting a refund if your expectations are not fulfilled.
- Stay away from businesses that push you to make a hasty decision. Take time to read all the paperwork, especially if any contracts are involved.
- Companies that hesitate to give out their address or release only a P.O. Box number should be avoided as they could be "fly-by-night" organizations that are around only long enough to get your money.
- Creditors set their own credit-granting standards and it may be worthwhile to contact creditors informally to discuss their credit standards. A poor credit report doesn't necessarily mean a consumer will not be able to get credit.